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veterinary economics

THE MAGAZINE OF PRACTICE MANAGEMENT AND FINANCE

1989 CONTINUING SURVEY RESULTS

THE LATEST IN VETERINARY

EXPENSES

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MEMO FROM THE EDITOR

On a joyous note

Last month, I spoke to two classes of journalism students at the University of Kansas. My assignment: To explain, if I could, how I find "joy" working for a veterinary magazine. I had to laugh at the question because it occurred to me that there probably isn't a journalism student in the country who is daydreaming about working for VETERINARY ECONOMICS someday. The first problem is that they've never heard of it, and the second problem is that the magazines they have heard of are likely to sound more glamorous.

But there is joy in working for this magazine, primarily because the readers and the staff are motivat*ing*, motivat*ed*, interesting people. Certainly nothing is ever dull around the office. The deadlines see to that, as do the staff members, whose dedication and sense of humor have gotten us through more than one crisis around here.

You and your colleagues keep us on our toes, too, by sharing the highlights and the lowlights of veterinary practice. When the journalism students asked how I came to know about veterinary practice management, I gave all of the credit to you; it's a rare instance when a practitioner is not willing to share advice, answers, ideas, anecdotes, and solutions with me, with the other editors, or with our writers.

I don't know if I convinced anybody to go to work for a magazine with a nine-syllable title, but I did remind myself of how nice it is to work with and around your profession. I do think the students began to appreciate the notion that a magazine and its staff can be inspired by its readers' desires to build better practices, and therefore better lives.

Best of luck for the new year.

Becky Turner

Rebecca R. Turner

P.S. I'll also find joy this month when my two cats and I marry Brian and his Irish Setter. Willy, Bear, and Cardozo won't be in the ceremony (and boy are my parents happy about *that*), but they will be waiting for us when we get home. Our veterinarians are poised to deal with any crises "the kids" cook up, and associate and assistant editors Kathy and Katie are prepared to guide the magazine through my pre-wedding jitters and post-wedding vacation.

See you in 1990.

veterinary economics

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NOTEWORTHY

STATS ON THE SUCCESS OF SMALL BUSINESS

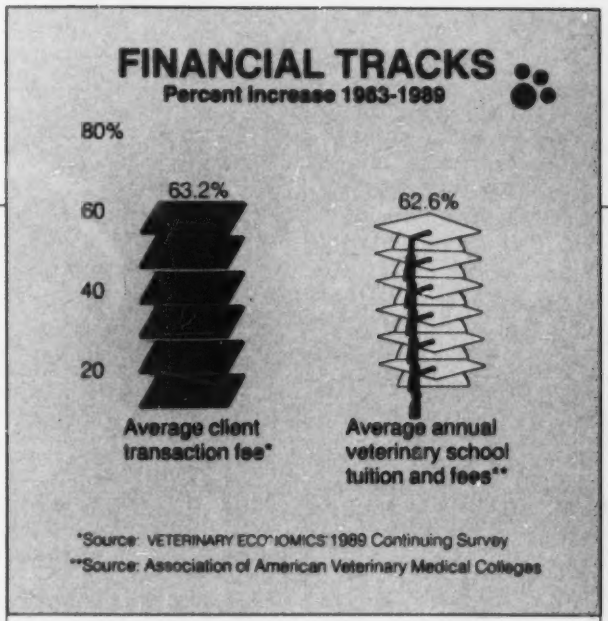
Good news for small business. A recent survey of 2,994 new businesses indicates that more than 70 percent celebrated their third birthdays. The report paints a brighter picture than earlier studies, which showed that fewer than half of all new businesses survived their perilous first few years.

The study, commissioned by American Express Co., and the National Federation of Independent Business, (NFIB), shows that believing in yourself, making a large initial investment, and providing better service proved significant for a three-year success story. Entrepreneurs who provide better service showed an 82-percent survival rate, while those who rely heavily on price chimed in at only 70 percent.

More traditional variables *didn't* significantly affect survival rates. For example, holding or operating under a franchise name, or having previous managerial experience didn't make a big difference. In fact, during the three-year period, 75 percent of those entrepreneurs with no prior managerial experience survived; 77 percent of those with extensive experience survived.

About 22 percent of the new entrepreneurs were women. They showed a 71-percent three-year survival rate, while the men clocked in ahead with 78 percent.

A final note from NFIB researcher William J. Dennis: "The typical successful entrepreneur spent more time either selling or working directly with customers than on any other aspect of running a new business."



THE SUCCESS FILE

Management ideas that can make a difference — *By Bob Levoy*

Santa Paws Is Coming To Town

One Saturday this holiday season, Dr. and Mrs. Daniel Ballard, owners of the Tioga Animal Clinic in Pineville, La., will offer all pet owners and children in their community an in-clinic photo session with "Santa Paws."

Santa Paws, a clinic employee dressed like Santa Claus, will donate his time, as will everyone else working at the event. A local photographer will snap the photos for $5 each; proceeds will go to the local humane society, which is known as PAWS (Protective Animal Welfare Society). To publicize the event, PAWS has asked local newspapers, plus radio and TV stations, to run public service announcements. Wide coverage is expected.

Besides raising money for a worthy cause, this event will enable Dr. and Mrs. Ballard and their staff to meet prospective clients and provide some on-the-spot education in a fun, light-hearted setting. They also hope the experience will teach young children that going to the hospital—for a pet or for a person—doesn't have to be a scary experience.

Bob Levoy is a management consultant, author, and popular seminar speaker to the veterinary profession.

EMPLOYEES CAN HELP BATTLE TURNOVER

You want your staff to work as a team, but what happens when turnover gets in the way? Before you conduct yet another employee search, consult with the key players on your team—your other employees.

According to a recent report in INC magazine, a software development firm in Rockville, Md., reduced its turnover rate to a mere 3 percent through an employee referral program. Approximately 60 percent of the company's workers were hired through this system.

To make a referral, an employee fills out a standard form and attaches the applicant's resume. If the applicant is hired and stays on the job at least four months, the referring employee receives a hefty bonus, depending on the level of the position filled.

A personnel specialist says of this hiring tactic: "People recommend people they want to work with, people they trust. Good employees tend to recommend people with similar characteristics."

DID YOU KNOW . . .?

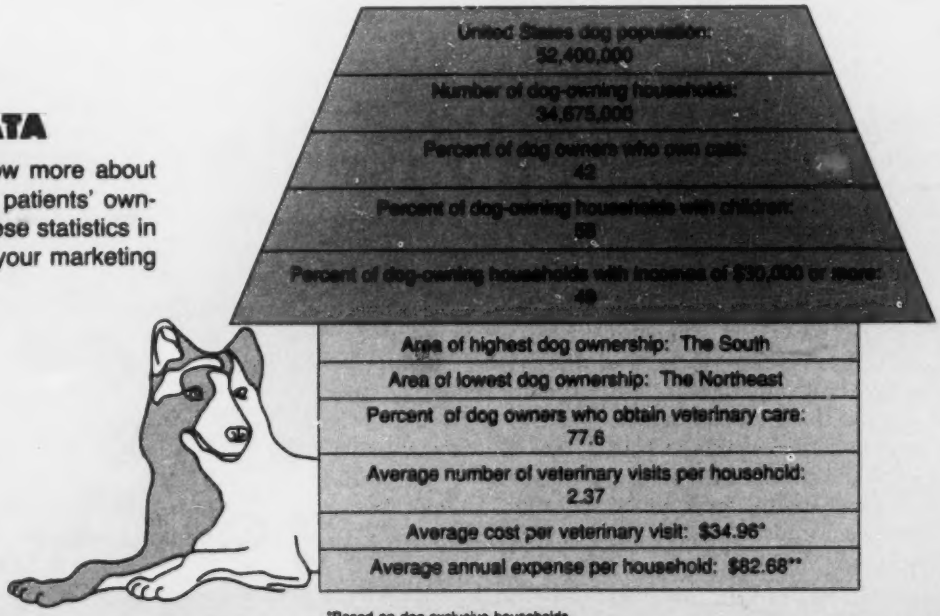
- Fifty-two percent of the nation's households own at least one cat or dog—that's more than 108 million animals. The figures, from the Pet Food Institute's annual survey on pet ownership, are up about one-half million from last year.
- A new study by the American Boarding Kennels Association shows that the number-one mistake dog owners make in pet care involves feeding. For cat owners, the most common mistake involves grooming.

The respondents, 1,200 ABKA boarding-kennel operators, reported that dog owners blunder by feeding inferior-quality food or table scraps to their pets, overfeeding, and changing diets. Cat-care problems stem from a lack of proper grooming and flea control.

- When the editors of *World Book Encyclopedia* surveyed 391 elementary- and secondary-school classes, they found that the most frequently sought-after subject was "dog."

DOG DATA

Want to know more about your canine patients' owners? Use these statistics in formulating your marketing plans:


United States dog population: 52,400,000
Number of dog-owning households: 34,675,000
Percent of dog owners who own cats: 42
Percent of dog-owning households with children: 58
Percent of dog-owning households with incomes of $30,000 or more: 49
Area of highest dog ownership: The South
Area of lowest dog ownership: The Northeast
Percent of dog owners who obtain veterinary care: 77.6
Average number of veterinary visits per household: 2.37
Average cost per veterinary visit: $34.96*
Average annual expense per household: $82.68**

*Based on dog-exclusive households.
**Estimated from dog-exclusive households.

Source: Charles, Charles Research Group, 1988

COVER STORY

1989 CONTINUING SURVEY RESULTS

Are your expenses a strain on your eyes—and your practice? Here we present a nationwide look at 1988 veterinary expenses, based on reports from more than 1,000 of your colleagues. You also will find solutions to and commentary upon your most pressing cost-control dilemmas.

CONTROLLING COSTS IN YOUR PRACTICE

Financial consultants agree that to manage expenses effectively, you must set your sights on an improved bottom line.

By Lynda Harris

The issue of cost control," says Owen McCafferty, CPA, "is really based on the question, 'Am I running at the most efficient mode for my practice?' You want to control costs only to the extent that they do not impair the generation of income." The biggest mistake practitioners make, McCafferty adds, is thinking that "Cutting costs to the bone is good; spending money is bad."

Instead of trying to cut costs across the board, financial experts recommend that you first evaluate how your costs affect income-generation. Consider, for example, these general rules:

- Only spend money on items that will help you generate more income than you can generate without them.
- Only purchase what makes sense for *your* practice.

For example, before you purchase a piece of equipment, first determine if the equipment will generate enough income to cover its purchase price, the additional insurance you'll need, and the opportunity cost—what you could be making on the money if you invested it or spent it elsewhere. (For an example of how to determine whether you'll make money from an equipment purchase, see the October 1989 issue, page 20.)

Or if you're thinking about adding exam rooms to accommodate more patients, or adding grooming or boarding to your list of services, weigh the increased costs against the potential increase in income *before* you build. If a cost seems too high or unjustified, you have two choices: spend less, or find a way to increase the benefits from the expense.

Justifying costs

"Why spend money for the sake of spending money?" asks Andrew M. Rich, Certified Financial Planner and practice management consultant. Rich says that the objective of a complete cost-control program is to maximize your bottom line. He maintains that cost-control is "just practical" and that controlling your expenditures requires little more than common sense. Consider these tips for efficient management:

▶ **Seek obvious cost-cutters.** Rex Nash, DVM, of Parma, Ohio, says that he uses the common-sense approach to curb costs. He, for example, turns off lights in areas he isn't using; takes advantage of specials and volume discounts on supplies when appropriate; and counts out pills when dispensing them.

▶ **Increase the benefits from an expense.** Dr. Nash invested in a computer, but credits the system for bringing in more income through accurate, consistent billing. He admits that before computerizing, some of the services he performed, such as clipping nails and expressing anal glands, slipped by the invoicing process. Now every service is coded: Dr. Nash simply glances at a list of services and writes down the corresponding numbers. His office staff enters the numbers into the computer, which adds up the charges and prints an itemized receipt. Dr. Nash also generates income with a mail-merge software program that produces mailers for such services as booster shots, heartworm reminders, and so on.

▶ **Plan and organize.** Dr. Ron Isaacson's Madison Heights,

THE AUTHOR is a business and financial writer in Denver, Colo.

Mich., practice is computerized, but he credits two additional factors for his success in controlling costs: a budget, which sets parameters for spending, and an inventory manager. Dr. Isaacson projects practice income for 18 months, then sets his budget, which he reviews quarterly to adjust for misjudged income, or to allow for investment in a new item he may decide to buy.

"Inventory is our second biggest expense," Dr. Isaacson says. "We budget 10 to 11 percent of our total expenditures on drugs, vaccines, and supplies. A real key to controlling these costs is having one person responsible for them." Enter licensed veterinary technician Mary O'Brien, Dr. Isaacson's inventory control manager. She devotes about five hours a week to this task and has full responsibility for ordering, stocking, and tracking inventory--all within Dr. Isaacson's budget. She orders weekly so that inventory will turn over about every two months and all items used will be routinely stocked and available.

O'Brien also has the authority to be flexible: If she can save 10 to 15 percent, she buys enough to turn over in three to four months. If savings are 20 to 33 percent, she's authorized to buy up to six months' worth of supplies. And if she can save more than 33 percent, she can order up to a one-year's supply, when appropriate.

Dr. Isaacson's computer software automatically reduces inventory figures for each item, based on billing entries. When it reaches a programmed "purchase point," the computer alerts O'Brien that it's time to reorder—and specifies a quantity. As a back-up to the computer, the hospital uses a "red tag" system. New inventory is placed behind older stock; a red tag on the last of the old inventory tells O'Brien that it's time to reorder. "It's so simple, but works so well," Dr. Isaacson says.

Juggling types of costs

Inventory is a "variable" cost—it fluctuates based on business volume. "Fixed" costs—steady, periodic costs that must be paid regardless of the volume of business you do—include salaries, advertising, utilities, and so on. Andrew Rich maintains that high fixed costs create pressure and don't allow you the best flexibility to adjust your practice as it changes.

Cynthia Wutchiett, CPA and veterinary management consultant in Columbus, Ohio, agrees. "Fixed costs can frequently make or break a practice," she says. But changing your fixed costs requires careful decision-making, she adds, because you need to look at each item and ask, "What is the policy regarding this item? Does it need to be revised?"

"You can decrease your fixed costs sometimes five, 10, 15 percent overall, and that really can add to your net income," she ex-

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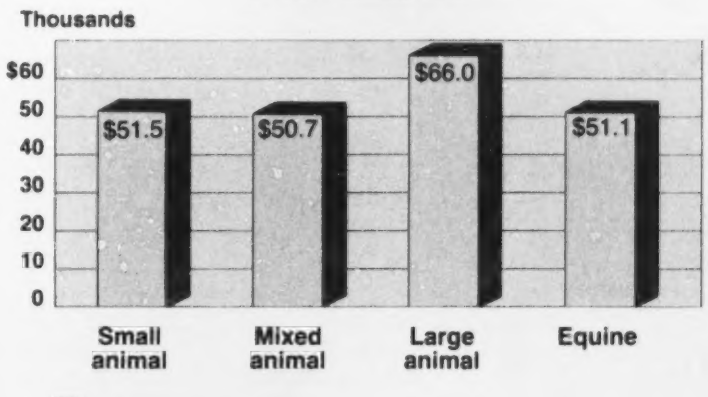
CONTINUING SURVEY RESULTS

TOTAL INDIVIDUAL 1988 EXPENSES

BY PRACTICE TYPE



For those in a professional corporation, totals exclude shareholders' salaries and bonuses and retirement-plan contributions credited to shareholders.

All figures are medians.

1989

CONTINUING SURVEY RESULTS

1988 EXPENSES BY REGION

		West	South-west	Plains	Great Lakes	Mid-South	South-Atlantic	North-East
Salaries, bonuses, retirement for non-DVM assistants	1988	$27,800	$22,900	$18,300	$21,900	$25,600	$29,500	$23,600
	% of gross	16.4	14.4	10.8	13.4	17.5	18.2	14.0
Salaries, bonuses, retirement for employed DVMs[1]	1988	$22,500	$23,300	$22,500	$20,000	$16,200	$17,500	$26,200
	% of gross	11.7	10.8	10.8	14.4	9.0	11.4	14.2
Office or hospital mortgage or rent	1988	$13,200	$11,000	$11,900	$8,000	$14,400	$11,900	$12,500
	% of gross	8.4	7.9	8.3	7.1	10.0	8.0	7.4
Drugs and medical supplies[2]	1988	$30,300	$34,600	$32,500	$31,400	$32,500	$31,700	$31,000
	% of gross	18.5	21.5	21.9	22.1	23.0	19.5	21.7
Travel and continuing education[3]	1988	$1,200	$1,000	$900	$900	$900	$1,000	$1,100
	% of gross	0.9	1.1	0.5	0.8	0.9	1.0	0.9
Medical equipment and repairs	1988	$3,000	$2,500	$2,400	$2,100	$2,100	$3,000	$3,100
	% of gross	1.6	2.2	1.5	1.6	2.1	2.0	2.1
Professional car upkeep and depreciation	1988	$4,100	$3,300	$3,700	$3,500	$2,700	$3,300	$3,300
	% of gross	2.6	1.9	3.0	2.9	1.9	2.2	3.1
Office supplies	1988	$2,400	$1,700	$1,800	$2,000	$1,600	$2,300	$2,400
	% of gross	1.8	1.3	1.4	1.6	1.4	1.7	1.7
Utilities and telephone	1988	$4,400	$4,000	$3,300	$4,000	$4,000	$5,100	$4,400
	% of gross	2.9	2.8	2.5	2.6	3.0	3.4	3.5
Nonmedical consultants	1988	$1,400	$1,300	$1,300	$1,000	$900	$1,800	$1,400
	% of gross	0.9	1.1	0.6	0.8	0.8	0.8	0.9

[1] Percentages of gross in compensation for employed DVMs category are based on each employer DVM's *individual* share of expense.

[2] Figures exclude retail products.

[3] Continuing education costs include registration fees, materials, and lodging.

All figures are medians.

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CONTINUING SURVEY RESULTS

INDIVIDUAL DVM EXPENSES

Salaries, bonuses, retirement for all non-DVM assistants

All DVMs	$24,700	15.3%	$22,600	14.8%
Small animal	28,800	16.9	26,900	16.6
Mixed animal	18,100	12.7	14,800	10.8
Large animal	14,200	8.3	11,600	10.0
Equine	15,000	8.4	15,600	10.5

Salaries, bonuses, retirement for employed DVMs

All DVMs	$21,600	12.0%	$23,900	11.9%
Small animal	21,300	12.0	23,700	11.6
Mixed animal	22,500	14.4	25,000	13.3
Large animal	20,400	10.6	26,900	13.9
Equine	31,200	16.3	29,400	13.5

Office or hospital rent or mortage

All DVMs	$11,800	7.9%	$10,600	7.0%
Small animal	13,600	9.0	12,300	7.8
Mixed animal	10,400	6.9	5,400	5.7
Large animal	5,200	3.5	3,600	2.2
Equine	4,700	3.9	5,100	4.7

Drugs and medical supplies[1]

All DVMs	$31,600	20.7%	$32,700	21.9%
Small animal	30,100	18.4	30,200	19.2
Mixed animal	40,400	27.4	39,200	29.8
Large animal	45,000	29.6	52,500	34.4
Equine	25,000	25.0	28,000	23.7

Travel and continuing education[2]

All DVMs	$1,000	0.9%	$ 800	0.8%
Small animal	$1,100	0.9	900	0.7
Mixed animal	900	0.9	600	0.7
Large animal	900	0.6	700	0.7
Equine	1,500	1.4	1,000	0.9

☐ 1988 ☐ 1987 ☐ Percent of gross

[1]1987 figures include nondepreciable small instruments; 1988 figures exclude retail products.

[2]1987 figures include *only* continuing education costs of registration fees, materials, travel, and lodging.

All figures are medians.

plains. "For instance, if you have 15 categories of fixed costs and you cut back $20 a month in 10 of them, that's $2,400 you'll save either to take home or put back into improving your practice."

Wutchiett says that many of her veterinary clients already carefully monitor their *variable* costs. "With variable costs, you might be able to take off a half-percent or a percent here or there; but I think DVMs have that pretty well wired." She says, however, that some veterinarians are mislead by the term "fixed" because these costs *can* vary somewhat from month to month. They don't change, though, in direct proportion to the number of clients, as variable expenses do.

Fixed costs, she says, tend to plateau, depending on the volume of business you do. "For example, let's say you make the maximum use of your $20,000 annual fixed costs when you see up to 3,000 clients per year. If you want to see just one more patient, you'll have to expand your facility or the payroll, because you just can't handle any more without jumping to the next plateau," she says.

"It's important for you to know where your practice's plateau is," Wutchiett cautions, "because when you have to incur more fixed expenses to see that additional patient, your income is going to drop substantially at first. You need to realize that that's going to happen and decide if the expansion will be worth it." ■

All figures in these charts are medians. Research by Medical Economics Co. Inc. Research Group for VETERINARY ECONOMICS. This article © 1989 and published by Veterinary Medicine Publishing Co. Inc. at 9073 Lenexa Dr., Lenexa, KS 66215. All rights reserved. These charts may not be reproduced or paraphrased in whole or in part in any manner without written permission. Limited quotations, if properly referenced, are acceptable.

STOP COMPLAINING ABOUT YOUR EXPENSES

The author says that it's time to get out of the way and let your clients pay for your practice expenses.

By Donald R. Dooley

A veterinary client of mine once asked me if I had any suggestions for keeping a dismissed employee from collecting unemployment benefits. He seemed shocked when I answered that I would *never* keep dismissed employees from collecting such benefits. In fact, unless they're going directly to another job, I think it best to remind them to file for unemployment. When I asked the practitioner why he didn't want the employee to collect, he said that when employees do take advantage of this benefit, he then has to pay even more for unemployment insurance.

In another instance, I heard a group of veterinarians discussing how to deal with rising employee health-insurance costs. One of the practitioners suggested making employees pay part of the increase themselves. I had to wonder if these practitioners thought that, by punishing their own employees, they could actually solve the nation's problem of exorbitant health-care costs. These two discussions reminded me, once again, that many veterinarians still don't understand the expenses involved in owning and operating a veterinary practice.

THE AUTHOR is a veterinary practice management consultant in Los Gatos, Calif.

Confusing the issue

Apparently, there still are many practice owners who think that they pay their hospital's expenses out of their own pockets. (And indeed, some may be doing just that.) The majority of veterinarians I encounter treat expenses as if they were some kind of enemy.

Much of this confusion is caused by accountants. When a veterinarian talks to his or her accountant about finances, the accountant is likely to say that the practice's profits are too small. When asked what needs to be done, many accountants will say to cut expenses. Those who see only this alternative seem to be obsessed with one business formula: Income minus expenses equals profit. If your accountant doesn't know anything about *how* you generate your income, he or she may assume that the only way to increase profits is to reduce expenses. I think there's another way.

In about 99 percent of the hundreds of veterinary practices I've worked with, the expenses are

1989

CONTINUING SURVEY RESULTS

MORE DVM EXPENSES

New medical equipment and repairs

All DVMs	$2,700	1.8%	•	•
Small animal	$2,900	1.9	•	•
Mixed animal	2,100	1.8	•	•
Large animal	1,500	1.0	•	•
Equine	3,500	2.4	•	•

Professional car upkeep and depreciation

All DVMs	$3,500	2.6%	$3,400	2.6%
Small animal	2,900	1.9	2,900	2.0
Mixed animal	4,400	3.6	4,800	3.4
Large animal	6,000	3.9	5,300	4.7
Equine	6,500	5.6	6,200	5.5

Office supplies

All DVMs	$2,100	1.6%	•	•
Small animal	2,200	1.7	•	•
Mixed animal	2,000	1.6	•	•
Large animal	1,600	1.2	•	•
Equine	1,600	1.4	•	•

Utilities and telephone

All DVMs	$4,100	2.9%	•	•
Small animal	4,800	3.3	•	•
Mixed animal	3,500	2.7	•	•
Large animal	2,900	1.9	•	•
Equine	3,000	3.0	•	•

Nonmedical consultants

All DVMs	$1,300	0.9%	•	•
Small animal	$1,400	0.9	•	•
Mixed animal	1,000	0.8	•	•
Large animal	1,000	0.6	•	•
Equine	1,200	0.9	•	•

☐ 1988 ☐ 1987 ☐ Percent of gross

*Figures not available.

[1]1987 figures include nondepreciable small instruments; 1988 figures exclude retail products.

[2]1987 figures include *only* continuing education costs of registration fees, materials, travel, and lodging.

All figures are medians.

about right, or they are *too low*. Trying to lower them even more is a time- and money-wasting exercise in frustration. In the few cases where a practitioner lowered an expense, either the amount was so small it didn't matter, or it adversely affected the practice.

When veterinarians truly understand the role of expenses in the sphere of profits, their practices prosper and life becomes much more enjoyable. Sound intriguing? Then let's take a look at the importance of expenses to a practice. The first step is to proceed with an open mind. What I'm about to say will be a completely new concept for many of you, so you must set aside your prejudice against expenses. You'll have to concentrate, too, because the concept is so simple it's easy to miss.

Breaking the barrier

There is only *one* reason that veterinary practices have expenses: *They incur costs in the process of providing veterinary medicine to animal owners. Therefore, the expenses should be paid by those who use these services: Namely, your clients.* See, I told you it was simple. Perhaps it's this simplicity that causes such confusion.

Let's apply this idea to the problems presented at the beginning of this article. Why are unemployment benefits provided for the unemployed? Because the United States is a democracy, and a majority of the voting public wants unemployed people to be cared for until they find employment. Even if you don't favor this concept, a majority, which includes your clients, do—and in this country, the majority rules. Remember too,

that whatever the majority wants, everyone pays for.

If your clients want unemployment benefits provided, it follows that they're also willing to pay for them. If it costs your practice an additional $300 per year, and you see 3,000 clients, each client's share is just 10 cents. If each client is allowed to pay an additional 10 cents per visit, the cost to your practice is zero. But if you refuse to allow your clients to pay their share, the additional cost must come out of your practice's profits.

What about those increasing insurance costs? First, consider why health insurance—or any fringe benefit—is provided for employees. Benefits are designed to attract and keep the best possible people. The reason to attract these employees is to offer animal owners the best possible service.

Next, let's consider why health-insurance costs are rising. Contrary to what you might think, the few employees who work in your practice aren't the sole cause of the increase. The problem stems from the country's delivery and use of health-care services. Since a typical practice has about 750 clients for each employee, isn't it reasonable to assume that *clients* are more to blame for the increase than your employees? Then they should pay for it.

If you still think employees should pay, consider the adverse effects: The best employees would leave for better jobs, and the practice would retain those employees who couldn't find jobs—and who would worry and be unhappy. I doubt that any client would choose to be served by a less competent, worried, and unhappy employee, just to save 45 cents.

Clients want you to have liability insurance, because they want to be able to sue you. Let them pay for it.

Letting them pay

What about your other expenses? Clients, for example, must be allowed to pay for liability insurance. Why? Because they want you to have it. They've asked their state and national representatives to make sure that they can sue you, so obviously they want you to be insured. Let them pay for it. As long as they control themselves and refrain from numerous and frivolous suits, it will cost them less. If they lose their restraint, it will cost them more.

As for equipment and maintenance, clients want a veterinary practice to have properly serviced X-ray processors to ensure that their animals get the best diagnostic work-ups. They are, of course, more than willing to pay any extra cost incurred. The same holds true for other pieces of equipment and for your drugs and supplies. Clients are not just concerned about price.

It's hard to pin down a single expense incurred by a veterinary practice that isn't for the clients' benefit. Clients *choose* the practices they patronize, so we can assume they like what's being done for their animals. We also can assume that if they like the service, they're willing to pay for it. ►

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CONTINUING SURVEY RESULTS

MEASURING INCOME vs. EXPENSES

High earners spend more to make more.

1988 gross income	Median expenses	Percent of gross
$ 50,000 —$ 99,000	$ 33,500	46.8%
100,000 — 149,000	73,700	60.0
150,000 — 199,000	99,000	59.8
200,000 or more	178,700	58.3

All figures are medians.

Setting the charge

The real function of expenses is to establish what *must be* charged for each service. Many articles address how to set and maintain a fee schedule, but the process need not be complicated. Simply add up your practice expenses and add them to whatever percentage of profit you desire. It's simple.

The mathematics are easy, too. If you want a profit (that is, everything that the owner and the employed veterinarians take out of the practice) of 40 percent, the expenses must equal 60 percent. Total your expenses for the previous 12 months and divide that amount by 0.60. This figure indicates what your gross income *should have been*. Let's say, for example, that your expenses add up to $120,000. This figure, divided by 0.60, equals $200,000. A gross income of $200,000 and expenses of 60 percent would have left $80,000 for you and the other veterinarians.

To find out what each client's contribution should have been, divide the gross income by the number of clients or transactions. In this case, $200,000 divided by, let's say, 3,000 clients equals $66.67 per client. If you counted 4,000 client transactions this year, the total comes to only $50 per transaction.

Now you know what you should have charged. To determine what your average charge per client or transaction needs to be in the future, you must predict what is in store for your practice. To the previous 12 months' expenses, add what you expect the inflation rate to be, plus any additional expenses you are contemplating, such as new employees, equipment, or remodeling. Then, based on past experience, estimate the number of clients or transactions you'll see next year and divide that number *into* your projected gross income (which is tabulated by adding the desired profit to your projected expenses).

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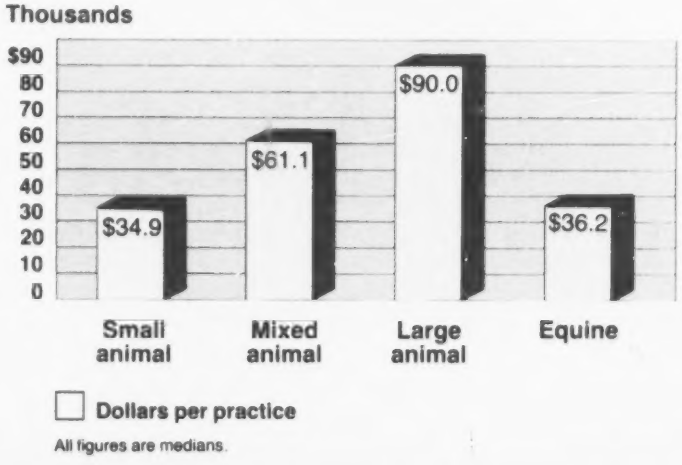
CONTINUING SURVEY RESULTS

TOTAL PRACTICE EXPENDITURES: DRUGS/MEDICAL SUPPLIES
BY PRACTICE SPECIALTY



All figures are medians.

Getting out of the way

After determining what the average client contribution per visit or transaction needs to be, all you have to do is get out of the way and let clients make it. Clients are making such necessary contributions in practices nationwide. Of course, it's not happening in as many practices as it could; there still are too many of you who won't get out of the way.

I've found that many practice owners still insist on paying a sizable amount of the practice's expenses out of their own pockets. They find various excuses for refusing to let clients pay for the services they want. I won't give them here, but for a list of tried-and-true excuses that practitioners use to prevent clients from making reasonable and accept-

able contributions to their practices, see VETERINARY ECONOMICS, November 1988, page 58.

While some practitioners are busy making excuses, others (although not as many as there should be) are busy being successful. They can't tell you what they pay for insurance, how much their drug and supply items cost, or what they pay their employees. In fact, one such veterinarian, when asked what he pays his technicians, said, "Whatever makes them happy, because my clients want them to be happy." While these practitioners may not know their individual expenses, they do know the total cost of operating their practices, and they use that total to project and achieve the profits they desire.

Concentrate on clients rather than expenses; you'll get the same adrenaline rush that you get from saving one-fourth of a cent on a syringe.

Changing your attitude

When you understand the role expenses play in practice management, cost increases—whether large or unexpected—won't be such a big deal. Expenses require only a minor adjustment in the projected average charge per client or transaction. Besides covering additional expenses, your practice will experience a slight increase in profits.

This concept, while quite simple, requires some philosophical and attitudinal changes to make it work. First, you must be willing to give up the time-consuming task of "saving a few dollars" by shopping for cheaper prices. Then, with the time you'll gain, you can concentrate on finding ways to serve your clients even better. By focusing on that goal, you eventually will get the same adrenaline rush from providing your clients with better service that you now get from saving one-fourth of a cent on a syringe.

You can't go two directions at once, and the human mind can't often handle two philosophies at the same time. For example, if you spend time shopping for something to save a few dollars, it's difficult to turn around and tell clients what's best for their animals without trying to save them some money. If you're overly cost-conscious and you see expenses as the enemy, you will interfere with your ability to produce income.

One of the sad things about overly cost-conscious practitioners is that they often talk about saving a few or even a hundred dollars. Those of their colleagues who are concerned about giving clients what they want and charging whatever is necessary talk about income increases in the thousands.

Reaping the rewards

I believe that clients want one more thing. They want to be proud of you. When they are with friends and see you in the community, they want to point you out as their veterinarian. Nobody wants to do business with doctors who look like they are about to go broke or are not doing well financially. One can't help but wonder what's wrong with the people who aren't doing well. Will they still be in business the next time they're needed? Even if you aren't interested in the money for yourself, at least try to make a good profit and appear prosperous for your clients' sake.

It's time to stop worrying about your expenses and concentrate on giving your clients whatever makes them happy. You need to get out of the way and let clients pay both your practice expenses *and* whatever it takes for you to live in a manner that makes your clientele proud.

This concept probably is contrary to everything you've been taught, and sounds like an oversimplification of a complex problem. And yet, the basic facts remain: If you get out of the way and let your clients take care of your expenses, your life will become vastly improved. ■